LAEDC LOS ANGELES COUNTY
ECONOMIC DEVELOPMENT CORPORATION

February 24, 2014

The Honorable Jerome Horton
Chair, Board of Equalization
621 Capitol Mall, Ste. 975
Sacramento, CA 95814

Re: Revisions to Board of Equalization Rule 133 – SUPPORT

Dear Chairman Horton:

On behalf of the Los Angeles County Economic Development Corporation, an organization dedicated to promoting job growth, economic expansion, and preserving the overall global competitiveness of California and Los Angeles County, I am pleased to offer our support for the proposed Board of Equalization (BOE) amendments to Rule 133. We believe the revised BOE Rule 133, which classifies equipment used in space travel as a "business inventory" thus providing a property tax exemption, is not only the normatively "equitable" thing to do, but it is also critically important to retaining, expanding and attracting new entrants into California's fast growing space commercialization industry – a "homegrown" California industry that is not only carrying on the state's aerospace dominance, but continuing to push the creative limits by changing the contours of the aerospace industry and expanding the creative bounds of what is possible in privately-supported space travel.

The public policy rationale for the revisions to BOE Rule 133 is simple: it's about fairness and equitable treatment of businesses across all industries and sectors. Although California does not have a so-called "inventory tax," which levies a tax on inventories without regard to profitability, the current property tax on equipment used in space travel is for "all intents and purposes" tantamount to an inventory tax, making California significantly less appealing for these space commercialization firms and creating a strong disincentive for these companies to locate their inventories in-state, where they'd be subject to the tax.

Making this inequitable treatment of California's space sector even more troubling is that the state can – and must – do even more to support its fast-emerging, innovation sectors – as the future job generators. Moreover, we know that the state's space sector is taking off in California through privately-supported space commercialization. However, we must not take it for granted and, in doing so, work hard to ensure it stays here. The space industry's decision – meaning, it's a choice – to be in our state is a great distinction and of great value, not only for our economy but also for our communities that benefit from the thousands of well-paying, high-skilled jobs, as well as the induced and indirect jobs, output, tax and investment impacts that flow to our regions.

Yet, the "newness" of this industry comes with its own set of challenges. For example, SpaceX, a Southern California stalwart in this emerging private space commercialization industry, employing more than 3,000 workers, received an unexpected and sizeable multi-million dollar tax bill for back property taxes on its propulsion systems (rockets)—chattel that was previously untaxed when space exploration and travel was a government-dominated field. At its core, the revisions to BOE Rule 133 exempt from property taxes this and other types of equipment for use in space flight.

However, the revisions to Rule 133 mean much more than that.

The revised BOE Rule 133 is a friendly reminder that in today's global economy, location is not permanent, but companies – especially those at the forefront of innovation and the technology revolution – have many opportunities to locate outside of California. We have already seen California's aerospace employment decrease by more than two-thirds from over 321,000 in 1990 due to combination of factors. And here in Los Angeles County, we've witnessed first-hand the destructive effects that the industry's decline from 189,000 workers in 1990 to fewer than 60,000 in 2011 has wreaked on our local communities. Not to mention the ancillary – but enormous - repercussions that the loss of aerospace programs has had on our nation-leading manufacturing base, as well as the state and local tax dollars lost due to these severe job declines – tax dollars that help fund critical community services and social programs.

Still, make no mistake; aerospace remains an incredibly vital industry to the economies and communities of California, Southern California, and Los Angeles County. So while the industry has suffered staggering job losses during the past 20+ years, the aerospace industry has also brought forth some incredible advances with companies like Northrop, Boeing, AeroVironment and SpaceX, which is not only revolutionizing space travel and leading – dare I say: "winning" – this generation's space race, but designing and building over 70 percent of its vehicles in-house, making their Hawthorne, California headquarters one of the few places in the world where you can view an entire rocket or spacecraft being manufactured. And again, this is all being done right here, in California's very own backyard. This should not be a business we slam with a very costly, past-due notice on a previously never taxed piece of equipment.

For all of the above reasons, the LAEDC commends your leadership on this and other important tax issues that help make California a better place to do business and offers its strong support for the revisions to BOE Rule 133—a much-needed business inventory classification that is not only rooted in notions of rational public policy, objective fairness and equitable treatment of businesses across sectors, but it will help secure our state's position as the home to the burgeoning space commercialization sector while simultaneously sending a message to all current and future space companies that "California is open for business."

Sincerely,

David Flaks, Chief Operating Officer
Los Angeles County Economic Development Corporation